



2004-2005 CAPITAL BUDGET

**2005-2009 CAPITAL
IMPROVEMENT PROGRAM**



**BUDGET POLICIES
AND PRACTICES**

CITY OF SAN JOSE
2004-2005 ADOPTED CAPITAL BUDGET

BUDGET POLICIES

The Capital Budget and the Capital Improvement Program are prepared and administered in accordance with several sources of policy direction. First, the City Charter requires that the budget be balanced, include a complete financial plan for all city funds, and meet certain legal deadlines for submittal. Second, the City Council has established budget policies (the complete text of the adopted policies is presented below). These policies include guidelines, standards, and requirements for preparation and monitoring of the Capital Budget. In addition, the City Council has adopted a policy for estimating construction project costs and developing project budgets. Third, the budget is developed in accordance with the Mayor's budget priorities and direction as approved by the City Council in March and June of each year. Fourth, recommendations of special studies by Council-appointed task forces, boards, commissions, and committees may be considered upon the direction of the City Council. Finally, public input is considered throughout the process, with scheduled public hearings at key Council decision points.

On December 18, 1986, the City Council, in order to delineate the purpose of the Five-Year Capital Improvement Plan, adopted the following definition:

"The Five-Year Capital Improvement Plan is a long-range study of financial wants, needs, expected revenues and policy intentions. It provides the necessary information for prudent budget recommendations. It compares the organization's various needs over a period of five years with the various anticipated revenues and puts them into a single focus for analytical purposes. It is not law, such as an annual budget, but a planning tool that provides a collection of facts, trends, and suggestions to the City Administration and Council. After it is adopted by the City Council, it is a non-binding assertion of future intent only. However, when an appropriation for the annual capital budget is adopted as part of the regular budget, it represents the amount which will be used to implement part of the Capital Improvement Plan in the coming year."

I. Fiscal Policies

- A. Capital project proposals should include complete, reliable, and attainable cost estimates based upon a thorough analysis of the project. Project cost estimates for the Five-Year Capital Improvement Plan will vary in reliability depending upon whether they are to be undertaken in the first or fifth year of the Plan. Project cost estimates for the Five-Year Capital Improvement Plan should include the basis on which the project costs were prepared (conceptual design, master plan, etc.), and the reliability of those estimated costs.
- B. Capital project proposals should include a comprehensive resource plan. This plan should include the amount and type of resources required, and the funding and financing strategies to be employed. The specific fund and timing should be outlined. The plan should indicate resources needed to complete any given phase of a project in addition to the total project. The City Manager's Budget Office is responsible and accountable for providing City Council with an accurate, comprehensive resource plan.

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BUDGET POLICIES (CONT'D.)

I. Fiscal Policies (Cont'd.)

- C. Changes in project estimates or the comprehensive resource plan should be fully reported to the City Council for review and approval.
- D. Project proposals should indicate the project impact on the operating budget.
- E. At the time of award of the construction contract, each project shall include reasonable provision for contingencies:
 - 1. The contingency amounts to be used for various types of projects were approved by the City Council on December 3, 2002 and are as follows:
 - a. 5% percent of the total contract for street, sidewalk or park projects;
 - b. 10% of the total contract amount for utilities and building projects;
 - c. 15% of the total contract amount for building renovation projects; or
 - d. Such other amount as approved by the City Council for a particular project.
 - 2. Project contingencies may, unless otherwise determined by the City Council, be utilized only to compensate for unforeseen circumstances requiring additional funds to complete the project within the original project scope and identified needs.
 - 3. For budgeting purposes, project contingencies are a reasonable estimating tool. At the time of contract award the project's budgeted appropriation, including contingency, will be replaced with a new appropriation equal to the approved project contract and a project contingency developed in the manner described above.
- F. The City Administration shall seek ways of ensuring that the administrative costs of carrying out the Capital Improvement Program are kept at appropriate levels.
- G. The Annual Capital Budget shall include only those projects that can reasonably be accomplished in the time frame indicated. Multi-year budgeting of projects shall be used to ensure a reasonable time frame for projecting costs. The detail sheet for each budgeted capital project should include a projected schedule.
- H. The status of all capital projects and the entire Capital Budget will be monitored by the full City Council as part of the Mid-Year Budget Review. Large projects of crucial importance may be monitored on a more frequent basis, as determined by the City Council.

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2004-2005 ADOPTED CAPITAL BUDGET

BUDGET POLICIES (CONT'D.)

I. Fiscal Policies (Cont'd.)

- I. Capital projects that are not encumbered or completed during the fiscal year will be rebudgeted to the next fiscal year except as reported to and subsequently approved by the City Council. All rebudgeted capital projects should be so noted in the Adopted Capital Budget.

II. Capital Improvement Program Policies

- A. Citizen participation in the Capital Improvement Program is a priority concern for the City. Among the activities conducted to address this need are the following:
 1. The Capital Improvement Program shall be provided to the City Council in a timely manner as required by the City Charter to allow Council members to review the proposal with constituents before it is considered for adoption.
 2. Council Budget Review Study Sessions on the Capital Improvement Program shall be open to the public and advertised sufficiently in advance of the meetings to allow for the attendance of interested citizens.
 3. Prior to the adoption of the Capital Improvement Program the City Council shall hold noticed public hearings to provide an opportunity for citizens to express their opinions on the proposed plan.
 4. The City Planning Commission shall review the proposed Capital Improvement Program and provide its comments on the contents before the City Council considers the plan for adoption.
- B. All projects included in the Capital Improvement Program shall be consistent with the City's General Plan. The services and facilities and transportation goals and policies should be followed in the development of the Capital Improvement Program. The General Plan service level goals will be clearly stated in the Capital Improvement Program.
- C. Capital projects shall be financed through user fees and benefit districts to the greatest extent possible where direct benefit to the user results from construction of the project.

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BUDGET POLICIES (CONT'D.)

II. Capital Improvement Program Policies (Cont'd.)

- D. The Council will annually review and establish criteria against which proposed capital improvement projects should be measured. Included among the factors that will be considered for priority-ranking are the following:
- projects that have a positive impact on the operating budget (reduced expenditures, increased revenues);
 - projects that are programmed in the Five-Year Operating Budget Forecast;
 - projects that can be completed or significantly advanced during the Five-Year Capital Improvement Plan;
 - projects that can realistically be accomplished during the year they are scheduled; and
 - projects that implement prior Council-adopted reports and strategies.
- E. Projects that involve intergovernmental cooperation in planning and funding should be established by an agreement that sets forth the basic responsibilities of the parties involved.

III. Debt Policy

The City Council adopted on May 21, 2002, (Resolution No. 70977) a Debt Management Policy that establishes the following equally important objectives:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit rating;
- Full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting;
- Ensure compliance with applicable State and Federal Laws.

In addition, Council approved on June 11, 2002, (Resolution No. 71023) a supplemental Policy for the Issuance of multifamily Housing Revenue Bonds.

IV. Estimating Construction Costs and Development of Project Budget Policy

The City Council adopted on August 22, 2000, an Estimating Construction Costs and Development of Project Budget Policy to improve the quality and effectiveness of the City's Capital Budget Process and accuracy of capital project construction by assuring that:

1. Capital projects have realistic budgets;
2. The City Council has enough information and data to establish the budget once a project is approved; and,
3. The public is clearly informed about project budgets.

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BUDGET POLICIES (CONT'D.)

IV. Estimating Construction Costs and Development of Project Budget Policy (Cont'd.)

This policy improves the Capital planning and budgeting process by setting definitions of project estimation relative to the degree of project design definition and level of completion. The policy establishes a consistent and uniform approach for estimating and reporting construction project costs and establishing realistic construction project budgets.

From project initiation as a concept through the award of a construction contract, there are six essential milestones or steps in the development of a project. These steps are shown below.

At various points within these steps, four different kinds of estimates are prepared as the project progresses from start to finish. As more detail, specificity and definition are developed through the stages of design, these estimates become more certain and realistic as noted below.

The six milestones or steps in a project and the point at which these estimates are prepared are as follows:

<u>Project Milestone/Phase</u>	<u>Type of Estimate</u>
1. Project Initiation	Program Estimate
2. Planning/Programming	Preliminary Estimate
3. Design Conceptual Design Schematic Design	Budget Estimate
4. Construction Documents/ Bidding/Contract Award	Engineer's Estimate
5. Construction	
6. Occupancy/Opening	

The four estimates are defined by this policy as follows:

- **The "Program Estimate"** is created in the Project Initiation Phase for the long-term, multi-year planning and for initial feasibility studies. It is based on a general description of the project as a concept and does not include any design, architectural work or detailed scope. It may typically include components for land acquisition, design, construction and construction management.

Level of Certainty: \pm 35%

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BUDGET POLICIES (CONT'D.)

IV. Estimating Construction Costs and Development of Project Budget Policy (Cont'd.)

- **The "Preliminary Estimate"** is prepared during the Planning/Programming Phase and is based on an initial program containing building and site square footages and general site work. It is typically not based on any formal engineering or architectural work, which usually has not yet occurred. The Preliminary Estimate is most commonly used to develop the next year's budget or to add a project to a current year budget to allow for further design development. For smaller projects of shorter duration and minimal complexity, the Program Estimate step may be eliminated in favor of the Preliminary Estimate.

Level of Certainty: $\pm 20\%$

- **The "Budget Estimate"** is prepared during the Schematic Design Phase and is based on a defined scope and schematic design work. It is prepared using estimated material quantities and unit prices taken from the plans and applying a general unit cost to each item. This estimate includes all changes in definition and scope that have been identified and incorporated into the project design since the Preliminary Estimate. Items associated with the commencement of construction such as bonds, insurance, mobilization and overhead costs are also included. This estimate is used for evaluating project alternatives, value engineering, and evaluation of the project budget established by the Preliminary Estimate in the Planning/Programming Phase. For projects of a multi-year duration, the Budget Estimate should include an inflationary factor that escalates the cost to the dollar value at the mid-point of the construction schedule.

Level of Certainty: $\pm 10\%$

- **The "Engineer's Estimate"** is a detailed estimate prepared using the final construction documents prior to bidding and contract award. It is prepared using unit prices for exact quantities of materials and labor taken from the plans. The Engineer's Estimate is used to establish the final funding within the budget and to evaluate bids received.

Level of Certainty: $\pm 5\%$

Smaller projects of shorter duration may not require all four levels of estimates. In most cases, however, a larger project would require as a minimum "Preliminary", "Budget" and "Engineer's" estimates.

CITY OF SAN JOSE
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SIGNIFICANT ACCOUNTING PRACTICES

The following information summarizes the significant accounting practices of the City of San José.

Budgetary Basis

Except for encumbrances being recognized as expenditures, the budget has been prepared on a modified accrual basis. The modified accrual basis recognizes expenditures when the related fund liability is incurred. Revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Fund Structure and Basis of Accounting

The budget is prepared in accordance with generally accepted accounting principles. The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into three broad fund categories (governmental, proprietary, and fiduciary). A general description of each follows:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. Governmental funds include the General, Special Revenue, Debt Service, and Capital Projects funds of the City. These funds are maintained on a modified accrual basis where the measurement focus is on current financial resources method rather than upon net income.

Proprietary Fund Types

Proprietary funds, which include Enterprise and Internal Service Funds, are used to account for the City's business-type activities. Proprietary funds use the economic resources measurement focus and accrual basis of accounting, this is the same as used for private-sector business enterprises. These funds are used where the City has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Fiduciary Fund

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SIGNIFICANT ACCOUNTING PRACTICES (CONT'D.)

Fiduciary Fund Types (Cont'd.)

Types include pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. Investment trust funds are used to report on the external portion of investment pools. Private-purpose trust funds are used to report on trust arrangements under which principal and income benefit individuals, private organizations, or other governments. Agency funds are used to account for resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

CITY OF SAN JOSE
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DEBT SERVICE OBLIGATIONS

Overview

The City's debt service obligations include general obligation bonds, revenue bonds (enterprise funds), City of San José Financing Authority revenue or lease revenue bonds, commercial paper, special assessment bonds, community facilities district bonds, Redevelopment Agency debt and capital lease obligations.

- **General obligation bonds** are issued to finance various public improvements in the City for which the primary collateral for repayment is the ad valorem tax on property within the City.
- **Revenue bonds** are issued to acquire or construct assets owned by the City whereby the City pledges income derived from the asset or enterprise to pay the debt service.
- **City of San José Financing Authority revenue or lease revenue bonds** are secured by revenues that are defined under Trust Agreements and generally include lease payments received by the Authority under a Project Lease. The City makes the lease payments to the Authority and covenants to annually appropriate funds. These payments are included in the City Budget as part of the annual appropriation process.
- **Commercial paper** is a short-term promissory note issued by the City or its political subdivisions that has a maturity of 270 days or less. Maturing commercial paper (CP) notes are repaid from the proceeds of sale of new CP notes or bonds or from other funds provided by the City.
- **Special assessment bonds** are issued to pay for public infrastructure improvement costs in special assessment districts and are fully secured by liens against the privately owned properties benefited by the improvements for which the bonds were issued. The City of San José Financing Authority Reassessment Revenue Bonds, Series 1994A and 1994B, were issued to refund six series of City of San José special assessment bonds.
- **Community facilities district bonds** are issued to finance the construction and/or acquisition of facilities and the provision of certain services in community facilities districts (CFDs). The source of repayment for CFD bonds is a special tax on privately owned properties within the CFD.
- **Redevelopment Agency debt** is issued to construct public improvements in redevelopment project areas in accordance with California Community Redevelopment law. The principal source of repayment for Redevelopment Agency debt is future property tax increment revenues.
- The City Council has adopted a general debt management policy, which allows flexibility when opportunities arise, but at the same time establishes parameters for entering into debt/capital lease obligations. In addition, Council has approved a supplemental Multi-Family Housing Revenue Bond Policy and Residential Development Guidelines.

CITY OF SAN JOSE
2004-2005 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

Overview (Cont'd.)

The City of San José Charter establishes the following requirements associated with debt limitations:

- Section 1216 sets the bonded debt limit for general obligation bonds at fifteen percent (15%) of the total assessed valuation of all the real and personal property within the City.
- Section 1220 establishes the power of the City Council to issue revenue bonds to finance the acquisition, construction, establishment, expansion, improvement, maintenance, operation, and administration of off-street vehicular parking facilities within the City or of municipal airport facilities. No additional authorization is necessary to issue bonds under this section of the City Charter.
- Section 1221 provides that no revenue bonds may be issued by the City for the purpose of supplying its inhabitants, or any portion thereof, with water, light, heat, power, railroad, or motor vehicle transportation services (other than airport service), or telephone, telegraph, or wireless communication service unless authorized by the affirmative vote of a majority of the electors voting on such a proposition in each case.
- Section 1222 states that revenue bonds may be issued by the City for any purposes other than those specified in Sections 1220 and 1221 only under and pursuant to the laws of the State of California.

Debt Status and Capacity

The City of San José Charter limits bonded indebtedness for General Obligation bonds to fifteen percent (15%) of the total assessed valuation of all real and personal property within the City. The total taxable assessed value on the City's 2004-2005 tax roll is estimated at \$91.9 billion, which results in a total debt capacity of approximately \$13.8 billion. As of June 30, 2004, the City had \$178.48 million of General Obligation bonds outstanding.

The City, City of San José Financing Authority, Redevelopment Agency, and San José-Santa Clara Clean Water Financing Authority total estimated outstanding debt as of June 30, 2004, is \$3.54 billion (See Table A). It should be noted that long-term lease obligations are not considered indebtedness under the State Constitution.

The Debt Management Policy for the City was adopted by the City Council on May 21, 2002. The first set of program-specific policies, related to the City's multi-family housing program, was adopted by the City Council on June 11, 2002.

CITY OF SAN JOSE
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DEBT SERVICE OBLIGATIONS (CONT'D.)

Debt Status and Capacity (Cont'd.)

During 2004-2005, the Business Plan of the Strategic Support City Service Area includes development of additional program-specific policies tailored to certain types of financings which may include, but are not limited to, the City's general obligation, lease revenue, enterprise and land-secured financings.

Descriptions of the City of San José's debt activity for 2003-2004 as well as issues planned for 2004-2005 are provided in the following sections.

2003-2004 Debt Issues

The Finance Department partnered with several City departments on projects that resulted in debt financing during 2003-2004.

- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Housing Set-Aside Tax Allocation Bonds, Series 2003J (Taxable) and Series 2003K** On July 10, 2003, the Redevelopment Agency issued \$55.265 million of Series 2003J (taxable) and \$13.735 million of Series 2003K housing set-aside tax allocation bonds (the "Refunding Bonds"). The bond proceeds were used to current refund the Agency's Series 1993A and Series 1993B housing set-aside tax allocation bonds and advance refund the Agency's Series 1993C housing set-aside tax allocation bonds (collectively, the "Refunded Bonds"), repay \$12.635 million of the existing \$50 million line of credit with Bank of New York and fund additional affordable housing projects. The Series 2003J bonds bear interest at fixed rates ranging from 2.00% to 5.25%, and have a final maturity date of August 1, 2024. The Series 2003K bonds bear interest at fixed rates ranging from 2.00% to 4.45%, and have a final maturity date of August 1, 2029.
- **City of San José CFD No. 10 (Hassler – Silver Creek), Special Tax Bonds, Series 2003** On July 23, 2003, the City issued \$12.5 million of special tax bonds to finance the acquisition of certain roadway improvements necessitated by development in the Silver Creek area. The bonds are secured by special tax revenues paid by the owners of taxable parcels in Community Facilities District No. 10 ("CFD No. 10"). The CFD No. 10 bonds bear interest at fixed rates ranging from 3.30% to 5.25%, and have a final maturity date of September 1, 2023.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

2003-2004 Debt Issues (Cont'd.)

- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Revenue Bonds (Subordinate Tax Allocation), Series 2003A (Taxable) and Series 2003B**
On August 27, 2003, the Redevelopment Agency issued \$45 million of Series 2003A (taxable) and \$15 million of Series 2003B revenue bonds. The bond proceeds were used to finance redevelopment activities within the Agency's Merged Area Redevelopment Project. Debt service is payable on a subordinate basis from the Agency's tax increment revenues. The Series 2003A bonds were issued as variable rate securities, bearing interest initially at a weekly rate, and have a final maturity of August 1, 2028. The Series 2003B bonds were also issued as variable rate securities, bearing interest initially at a weekly rate, and have a final maturity of August 1, 2032.
- **City of San José Financing Authority Lease Revenue Bonds, Series 2003A (Central Service Yard Refunding Project)**
On September 18, 2003, the City of San José Financing Authority issued \$22.625 million of Series 2003A lease revenue bonds. The bond proceeds were used to current refund the Authority's Series 1993D lease revenue bonds issued to acquire and construct the City's Central Service Yard. The refunding generated a net present value saving of \$987,721. This saving represents a 4.45% net present value reduction in debt service payments while maintaining the final maturity date of the debt. The Series 2003A bonds, which are insured by Ambac, bear interest at fixed rates ranging from 3.00% to 4.70%, and have a final maturity date of October 15, 2023.
- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 2003**
On December 22, 2003, the Redevelopment Agency issued \$135 million of Series 2003 tax allocation bonds. The bond proceeds were used to finance multiple redevelopment projects within the Agency's Merged Area Redevelopment Project. Debt service is payable from the Agency's tax increment revenues. The Series 2003 bonds, which are insured by Financial Guaranty Insurance Company, bear interest at fixed rates ranging from 3.00% to 5.00%, and have a final maturity date of August 1, 2033.
- **City of San José Financing Authority Tax-Exempt Lease Revenue Commercial Paper Program**
On January 13, 2004, the City Council and the City of San José Financing Authority each adopted a resolution authorizing the issuance of City of San José Financing Authority tax-exempt lease revenue commercial paper notes in an amount not to exceed \$98 million. This commercial paper program was established as a mechanism for financing public improvements of the City including the offsite parking garage for the new Civic Center and non-construction costs for technology, furniture, equipment and relocation services for the new Civic Center. Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The commercial paper notes are secured by a pledge of lease revenues from various City assets and additionally secured by a letter of credit provided by State Street Bank and Trust Company and the California State Teachers' Retirement System (CalSTRS).

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DEBT SERVICE OBLIGATIONS (CONT'D.)

2003-2004 Debt Issues (Cont'd.)

- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2004A** On May 27, 2004, the Redevelopment Agency issued \$281.985 million of Series 2004A tax allocation bonds. The bond proceeds were used to refund a portion of the Agency's outstanding Merged Area Redevelopment Project Tax Allocation Bonds. The refunding generated net present value savings of \$10.407 million. This savings represents a 3.34% net present value reduction in debt service payments while maintaining the final maturity date of the debt. Debt service is payable from the Agency's tax increment revenues. The Series 2004A bonds, the majority of which are insured by MBIA, bear interest at fixed rates ranging from 2.00% to 5.25%, and have a final maturity date of August 1, 2019.
- **City of San José Financing Authority Taxable Lease Revenue Bonds, Series 2004A (Ice Centre of San José Expansion Project)** On June 3, 2004, the City of San José Financing Authority issued \$9.225 million of Series 2004A taxable lease revenue bonds. The bond proceeds will be used to expand and renovate portions of the City's Logitech Ice Centre of San José. Debt service on the bonds will be paid from base rental payments received by the City from the Ice Centre operator, Silicon Valley Sports and Entertainment. The Series 2004A Bonds, which are insured by MBIA, were issued as auction rate securities, accruing interest at auction rates for successive 28-day auction periods, and have a final maturity date of December 1, 2024.
- **City of San José Airport Revenue Bonds, Series 2004A (AMT), Series 2004B (AMT), Series 2004C (AMT), and Series 2004D (Non-AMT)** On June 24, 2004, the City issued \$70 million of Series 2004A, \$70 million of Series 2004B, \$75.73 million of Series 2004C, and \$34.27 million of Series 2004D airport revenue bonds (the "2004 Bonds"). The proceeds of the 2004 Bonds will be used to pay (and to refund commercial paper notes issued to pay) a portion of the costs of designing and constructing certain security-related capital improvements at the Norman Y. Mineta San José International Airport. Debt service on the 2004 Bonds will be paid from General Airport Revenues and certain other funds. The 2004 Bonds are insured by MBIA.

The Series 2004A Bonds were issued as auction rate securities, accruing interest at auction rates for successive 7-day auction periods, and have a final maturity of June 1, 2034. The Series 2004B Bonds were issued as auction rate securities, accruing interest at auction rates for successive 35-day auction periods, and have a final maturity of June 1, 2034. The Series 2004C Bonds bear interest at fixed rates ranging from 4.625% to 5.25%, and have a final maturity date of March 1, 2026. The Series 2004D Bonds bear interest at a fixed rate of 5.00% and have a final maturity date of March 1, 2028.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

2003-2004 Debt Issues (Cont'd.)

- **Multi-Family Housing Revenue Bonds** Federal Tax law requires an allocation of the State's private activity volume cap to finance multi-family housing projects on a tax-exempt basis. The City received allocations from the California Debt Limit Allocation Committee (CDLAC) and closed the following projects while complying with CDLAC regulations:

Allocations awarded on March 26, 2003, resulting in bond issuances in July and August 2003:

- Oaks of Almaden Apartments (\$8.35 million), closed July 29, 2003
- Cinnabar Commons Apartments (\$25.9 million), closed August 7, 2003

Allocations awarded on July 9, 2003, resulting in bond issuance in November 2003:

- Almaden Family Apartments (\$31.3 million), closed November 14, 2003

Allocations awarded on December 17, 2003, resulting in bond issuances in March 2004:

- Trestles Apartments (\$8.625 million), closed March 4, 2004

Allocation awarded on April 21, 2004, resulting in bond issuance in June 2004:

- Aspen Vintage Tower Apartments (\$5.5 million), closed June 28, 2004

2004-2005 Planned Debt Issues

- **General Obligation Bonds, Series 2004 (Libraries, Parks and Public Safety Projects)** The City issued \$118.7 million of Series 2004 general obligation bonds on July 14, 2004. The proceeds will be used to fund \$58.3 million of library projects, \$46.0 million of neighborhood parks and recreation projects, and \$14.4 million of public safety projects. Debt service on the Series 2004 bonds is payable from *ad valorem* taxes levied upon all property subject to taxation by the City. The Series 2004 bonds bear interest at fixed rates ranging from 4.00% to 5.00%, and have a final maturity date of September 1, 2034.
- **Expansion of City of San José Financing Authority Tax-Exempt Lease Revenue Commercial Paper Program** In Fall 2004, City staff anticipates expanding the capacity of the City of San José Financing Authority tax-exempt lease revenue commercial paper program by approximately \$10 million. This additional capacity will be used to finance the purchase, installation, and integration of an Integrated Utility Billing, Customer Service and Performance Management System ("CUSP").

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DEBT SERVICE OBLIGATIONS (CONT'D.)

2004-2005 Planned Debt Issues (Cont'd.)

- **Land Acquisition Lease Revenue Bonds** City staff is working on the development of a financing plan for the acquisition of land adjacent to the Norman Y. Mineta San José International Airport. A portion of the land is anticipated to be used for aviation purposes, including construction staging and parking. The financing plan is expected to include lease revenue bonds, with payments received from the Airport supporting debt service, and a HUD Section 108 loan secured by the City's Community Development Block Grant (CDBG) revenues. It is anticipated that this financing will close in December 2004.
- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Housing Set-Aside Tax Allocation Bonds** In Winter 2004, the Redevelopment Agency is planning to issue a series of tax-exempt housing set-aside tax allocation bonds. The bond proceeds will be used to refund the Agency's outstanding Housing Set-Aside Revenue Bonds, Series 1993D, to repay draws on the \$50 million Housing Department Line of Credit, and to fund additional affordable housing projects. The timing of this issuance depends on the programmatic cash flow needs of the Housing Department and the resulting speed with which it draws down its Line of Credit. This will be one of the first issuances under CDLAC's new program to allow for the issuance of private-activity tax-exempt tax allocation bonds to fund loans to affordable housing projects.
- **General Obligation Bonds, Series 2005 (Libraries, Parks and Public Safety Projects)** The City plans to issue another series of general obligation bonds in June or July 2005. The proceeds of those bonds would be used to fund a portion of the libraries, parks, and public safety projects approved by voters in November 2000 and March 2002. The timing, size, and purpose of the bond issue will depend upon the expenditure and encumbrance needs of the various projects to be financed.
- **Multi-Family Housing Revenue Bonds** The Housing Department anticipates submitting an application to CDLAC on behalf of the following project, with allocation scheduled to be awarded on September 15, 2004:
 - Delmas Park Apartments (\$20 million)

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DEBT SERVICE OBLIGATIONS (CONT'D.)

(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2004

(In Thousands of Dollars)

	Balance July 1, 2003	Additions to Long-Term Obligations	Current Maturities and Retirements	Estimated Balance June 30, 2004
GENERAL LONG TERM DEBT				
General Obligation Bonds	184,720		6,240	178,480
Special Assessment Bonds with Limited Governmental Commitment	80,708	12,500	8,066	85,142
Obligations Under Capital Lease	81		65	16
CITY OF SAN JOSE FINANCING AUTHORITY				
REVENUE BONDS PAYABLE				
Lease Revenue Bonds, Series 1993A (Taxable)	535		535	0
Lease Revenue Bonds, Series 1993B	11,715	328	530	11,513
Lease Revenue Bonds, Series 1993D	22,210		22,210	0
Lease Revenue Bonds, Series 1997A	6,525		130	6,395
Lease Revenue Bonds, Series 1997B	6,410		1,015	5,395
Lease Revenue Bonds, Series 2000B	22,380		135	22,245
Lease Revenue Bonds, Series 2000C (Taxable)	22,200			22,200
Lease Revenue Bonds, Series 2001B (Taxable)	24,000			24,000
Lease Revenue Bonds, Series 2001C (Taxable)	18,500			18,500
Lease Revenue Bonds, Series 2001D	10,800			10,800
Lease Revenue Bonds, Series 2001E	15,440		1,720	13,720
Lease Revenue Bonds, Series 2001F	185,440		4,050	181,390
Lease Revenue Bonds, Series 2002B	292,425			292,425
Lease Revenue Bonds, Series 2002C	60,000			60,000
Lease Revenue Bonds, Series 2002D	60,000			60,000
Lease Revenue Bonds, Series 2003A		22,625		22,625
Lease Revenue Bonds, Series 2004A (Taxable)		9,225		9,225
Reassessment Revenue Bonds, Series 1994A	2,815		1,410	1,405
Reassessment Revenue Bonds, Series 1994B (Subordinate)	2,145		615	1,530
Revenue Bonds, Series 2001A	47,545		1,175	46,370
REDEVELOPMENT AGENCY				
Housing Tax Allocation Bonds	113,375	69,000	41,600	140,775
Housing Tax Allocation Bonds (Subordinate)	70,000			70,000
Redevelopment Tax Allocation Bonds	1,422,550	416,985	314,830	1,524,705
Redevelopment Tax Allocation Bonds (Subordinate) and Other	63,315	60,000	190	123,125
CITY OF SAN JOSE ENTERPRISE FUNDS				
Bonds Payable	368,055	250,000	9,810	608,245
TOTAL	3,113,889	840,663	414,326	3,540,226

* Includes preliminary estimates for debt not yet issued as of the date of publication.

CITY OF SAN JOSE

2004-2005 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

(B) Summary of Estimated Bonds and Notes Payable at June 30, 2004 by Individual Issue

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
CITY OF SAN JOSE			
General Obligation Bonds, Series 2001	2031	4.25-5.125%	66,260
General Obligation Bonds, Series 2002	2032	3.0-5.0%	112,220
Total City of San José			<u>178,480</u>
SPECIAL ASSESSMENT BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2032	Various	85,142
OBLIGATIONS UNDER CAPITAL LEASES	2005	Various	<u>16</u>
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 1993B	2018	5.40-6.00%	11,513
Lease Revenue Bonds, Series 1997A	2027	5.30-5.60%	6,395
Lease Revenue Bonds, Series 1997B	2012	4.35-4.875%	5,395
Lease Revenue Bonds, Series 2000B	2030	4.70-5.50%	22,245
Lease Revenue Bonds, Series 2000C (Taxable)	2024	Variable Rate	22,200
Lease Revenue Bonds, Series 2001B (Taxable)	2024	Variable Rate	24,000
Lease Revenue Bonds, Series 2001C (Taxable)	2024	Variable Rate	18,500
Lease Revenue Bonds, Series 2001D	2026	Variable Rate	10,800
Lease Revenue Bonds, Series 2001E	2010	4.00-5.00%	13,720
Lease Revenue Bonds, Series 2001F	2022	4.00-5.00%	181,390
Lease Revenue Bonds, Series 2002B	2037	3.00-5.25%	292,425
Lease Revenue Bonds, Series 2002C	2039	Variable Rate	60,000
Lease Revenue Bonds, Series 2002D	2039	Variable Rate	60,000
Lease Revenue Bonds, Series 2003A	2023	3.00-4.70%	22,625
Lease Revenue Bonds, Series 2004A (Taxable)	2024	Variable Rate	9,225
Reassessment Revenue Bonds, Series 1994A	2005	5.40%	1,405
Reassessment Revenue Bonds, Series 1994B (Subordinate)	2007	6.00%	1,530
Revenue Bonds, Series 2001A	2026	3.80-5.25%	46,370
Commercial Paper Notes	Short Term	Various	22,673
Total City of San José Financing Authority			<u>832,411</u>
REDEVELOPMENT AGENCY			
Housing Tax Allocation Bonds	2030	2.00-7.80%	140,775
Housing Tax Allocation Bonds (Subordinate)	2029	Variable Rate	70,000
Redevelopment Tax Allocation Bonds	2033	2.00-6.00%	1,524,705
Redevelopment Tax Allocation Bonds (Subordinate) and Other	2032	Variable Rate	123,125
Total Redevelopment Agency			<u>1,858,605</u>

CITY OF SAN JOSE
2004-2005 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

(B) Summary of Estimated Bonds and Notes Payable at June 30, 2004 by Individual Issue
(Cont'd.)

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
ENTERPRISE FUNDS			
Norman Y. Mineta San José International Airport			
Revenue Bonds, Series 1994	2007	5.875%	5,380
Revenue Refunding Bonds, Series 1998A	2018	4.20-4.75%	11,140
Revenue Bonds, Series 2001A	2031	3.05-5.25%	155,435
Revenue Refunding Bonds, Series 2002A	2018	4.00-5.375%	53,600
Revenue Refunding Bonds, Series 2002B (AMT)	2012	3.00-5.00%	36,945
Revenue Bonds, Series 2004A (AMT)	2034	Variable Rate	70,000
Revenue Bonds, Series 2004B (AMT)	2034	Variable Rate	70,000
Revenue Bonds, Series 2004C (AMT)	2034	4.625-5.25%	75,730
Revenue Bonds, Series 2004D (AMT)	2030	5.00%	34,270
Commercial Paper Notes	Short Term	Various	5,786
Clean Water Financing Authority:			
Revenue Bonds, Series 1995A	2020	4.70%-5.375%	67,120
Revenue Bonds, Series 1995B	2011	Variable Rate	26,700
Revenue Bonds, Series 1995C	2004	4.70%	1,925
State of California Revolving Loan	Short Term	Various	56,099
Total Enterprise Funds			<u>670,130</u>
GRAND TOTAL			<u><u>3,624,784</u></u>

CITY OF SAN JOSE
2004-2005 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

(C) Annual Requirements to Amortize All Bonds and Notes Estimated to be Outstanding
as of June 30, 2004*

(In Thousands of Dollars)

Year Ending June 30	City of San José General Obligation	Special Assessment Bonds	City of San José Financing Authority	Redevelopment Agency	Enterprise Funds
2005	14,491	9,848	49,099	108,164	35,665
2006	14,265	7,586	50,215	123,143	39,954
2007	14,040	7,424	49,285	126,315	39,810
2008	13,795	7,431	49,080	126,374	39,896
2009	13,536	7,000	49,509	126,244	40,941
Thereafter	234,088	99,257	1,297,440	2,741,821	869,415
Total	304,215	138,546	1,544,628	3,352,061	1,065,681

* The following interest rates were used to project debt service for variable-rate bonds:

	Tax-Exempt	Subject to AMT	Fully Taxable
2004-05	1.90%	1.95%	2.10%
Thereafter	3.30%	3.35%	4.70%